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SIPDIS

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SUBJECT: CROATIA-SLOVENIA BILATERAL ISSUES

Classified By: DCM Greg Delawie for reasons 1.4 b/d.

11. (C) Summary and Comment: Croatia and Slovenia enjoy generally good bilateral relations. Nevertheless, unresolved issues concerning maritime boundaries and the land border, the jointly-owned Krsko nuclear power plant and Croatian deposits in the former Ljubljanska Banka are persistent irritants, all of which are periodically exploited by politicians in both countries. However, despite the occasional contretemps, trade and investment continue to grow, with bilateral trade approaching \$2 billion annually. The European Union has consistently resisted attempts to link these bilateral issues to Croatia,s EU accession, as was equally the case at the time of Slovenia,s EU and NATO accession two years ago. End Summary.

Maritime Boundary

12. (SBU) The dispute over the maritime boundary between Croatia and Slovenia is a legacy of the break-up of Yugoslavia (as are all these issues) and centers on the Slovene claim to a right of access to the open sea in the northern Adriatic south of the Piran Bay. Maritime boundaries were never delimited at the republic level in the former Yugoslavia. In 1968, Yugoslavia and Italy reached an agreement on the delimitation of their maritime boundary and the underlying epicontinental shelf, which extended from the point of their land border south of Trieste to a point in the Adriatic known as T-5 (45,27 N) 13,12 E), south of which was open sea. T5 lies to the south of the Croatian-Slovenian land border in the Piran Bay. Following the break up of Yugoslavia, Slovenia assumed the portion of the maritime boundary with Italy adjacent to its coast, but this did not extend to T5, which Croatia claims as the northern-most point where its territorial waters meet the open sea.

13. (SBU) Slovenia claims, that as a successor state to the former Yugoslavia, it should have territorial water adjacent to the open sea based on the agreement between Italy and Yugoslavia and the fact that Slovenes policed this part of the Adriatic when it was part of Yugoslavia. (Note: Slovenia does have the right of passage through Croatian territorial waters to the open sea.) Croatia does not recognize this claim, citing the UN Convention on the Law of the Sea. Although the dispute has simmered for years and is commonly seized upon by politicians on both sides of the border in each election cycle, it flared up again in 2005 after Croatia and Italy began negotiations on the proclamation of an ecological zone in the Adriatic without Slovene participation. In reaction, Slovenia adopted a proclamation on a protected ecological zone extending to T5, which the Croatians viewed as illegitimate and an attempt to lay claims to Croatian territorial waters. The center-left coalition of former Croatian PM Racan in 2001 attempted to reach an agreement that offered Slovenia a corridor to open seas (but not the underlying seabed). Racan and then Prime Minister Drnovsek (now President of Slovenia) initialed the agreement, but it ran into fierce resistance in the Croatian parliament and was never ratified. Croatia insists that it is willing to take the issue to international arbitration, while Slovenia has pressed to resolve this bilaterally. Croatia believes this to be an indication of Slovenia,s recognition of the weakness of its claim. The EU thus far has rejected calls by some Slovene politicians to link this dispute to Croatia,s accession negotiations, urging the two sides to resolve the issue bilaterally.

Krsko Nuclear Power Plant

14. (SBU) The Krsko nuclear power plant in the Slovenian town of Krsko was built jointly by Slovenia and Croatia in the early 1980s. It is now co-owned by the Slovenian power company ELES GEN and the Croatian utility HEP. In 1998, Slovenia cut power deliveries to Croatia following HEP,s failure to make what the Slovene side considered sufficient payments for the maintenance and operation of the plant. The Croatian utility at that time claimed that it had to make other substantial investments to repair infrastructure damaged during the war. Bilateral negotiations on the issue that concluded in December 2001 resulted in an agreement on the settlement of debts and set a date of June 30, 2002 for the resumption of power deliveries to Croatia. The Slovenian parliament, however, did not immediately ratify the agreement

and power deliveries did not resume until April 19, 2003. As a result, HEP is seeking 31.7 million euros in compensation for the nine month gap in power delivery.

15. (SBU) Disagreements surrounding the provision of electricity are not the only bilateral issue related to Krsko. The plant is designed to operate until 2023, after which time it will have to be decommissioned, at a cost of several hundred million euros. Slovenia has demanded that Croatia agree to a specific plan both to finance the plant, its decommissioning and for disposal of the waste, which is currently stored on-site. HEP has said that it will set aside money annually for this purpose and that Croatia will participate in the decommissioning of the plant at the appropriate time. However, Croatia has said that it will never take any of the Krsko waste.

Ljubljanska Banka

16. (SBU) The dispute over Ljubljanska Banka also lingers from the breakup of Yugoslavia when the bank blocked all deposits outside Slovenia before declaring bankruptcy. Some 140,000 Croatian clients had deposits that the Croatian government says total approximately 150 million euros which were lost. As a result of the dispute, the Croatian National Bank has refused to license any Slovenian bank to enter the lucrative Croatian banking market (now over 90 percent foreign-owned). In some cases, this has extended even beyond Slovenian banks. Belgium's KBC, which owns a 34 percent stake in Ljubljanska, its successor Nova Ljubljanska Banka has been prevented from acquiring Croatia's Splitska Banka, which is being sold by the current owner, Italian Unicredito.

17. (SBU) The Slovene side disputes the amount of the claims and has pointed out that defaults on commercial loans made by Ljubljanska to Croatian companies exceed the deposits. Slovenia has argued that the issue should go to international arbitration, which Croatia has resisted, although there have been some recent signals that the government may be prepared to take this step. Press reports have also speculated that KBC could be prepared to settle the claims in order to be able to acquire Splitska Banka. In another development, 33 Croatian Ljubljanska clients were paid in December 2005, after several won a case brought before the European Court for Human Rights in Strasbourg.

18. (C) In the final analysis, these remain fundamentally bilateral issues between Croatia and Slovenia, irritants in what is, overall, a good relationship between the two countries. Both sides should be encouraged to find solutions to these problems, but attempts to inject them into multilateral fora should be strongly resisted, as they have been so far.

19. (U) Embassy Ljubljana has commented on this cable.
FRANK